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Shaping university boards for 21st century higher education in the US

Many university boards have not revised their governance models in decades and struggle to deliver on their mission. To update their current operating model, boards can focus on three best practices.

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"School governance is not a traditional hierarchy but looks more like a mountain range: different peaks represent students, alumni, faculty, president, the board, etc. Each institution has its own unique mountain range and therefore each has its own unique power structure."[1]

The operating environment for public and private universities is increasingly complex. Shifting strategic imperatives due to, for example, plateauing enrollment, cuts to public funding, mismanagement of finances, and damaged reputations from admissions (and other) scandals all demand time and attention from university boards. This increasing pressure and exposure to new, more diverse risks has significantly changed board-administration responsibilities. The COVID-19 pandemic has also presented unprecedented challenges for universities, such as financial instability, moving to distance learning overnight, and decisions, including when and how to reopen after being fully remote. Since many of the medium- and long-term implications are unknown, presidents and their teams need the seasoned judgment and foresight that a well-functioning board of directors can provide.[2]

Yet many boards are not well-equipped to deal with these issues. Their governing structure has changed little to meet these new challenges. Most boards likely avoid questioning their processes or structure, as doing so is politically delicate and could have unintended consequences, such as diminished development from generous donors and other university contributors. Without taking the time to reflect on current procedures and operating models, however, modern university boards may lack the capabilities required to provide oversight and guidance to their institutions.

This resistance to change has serious consequences. Ineffective board composition and structure can prevent a university from achieving its mission, executing its core functions, responding to emerging trends, and could even adversely affect the school's reputation and competitive position. Indeed, many universities compete with one another on their value proposition—promises of access to innovative research and knowledge, opportunities to learn and excel, upward socioeconomic mobility, and higher lifetime earnings.

Based on our experience, we found that boards can update their governing model and improve how they execute core functions by employing three best practices: improve cooperation between the board and the administration, redefine board structure, and set clear board processes and norms. Each of these approaches should be tailored to a university's unique context. While these recommendations may seem pedestrian, too many boards don't have the basics right, making it harder to navigate the current moment and plan for the future.

Navigating a complex environment

While there are many trends unfolding in the higher-education environment, there are three that put the most pressure on university boards.

Strategic imperatives are changing: Many universities faced a flat student pipeline even before the COVID-19 crisis. A year ago, a strong economy and demographic shifts (the number of high school graduates is expected to peak in 2026[3]) and rising tuition and student debt enticed potential students into the workforce instead of the classroom. According to McKinsey research, the pandemic has increased enrollment uncertainty; about 20 percent of students report changing their first-choice school, citing cost and location as factors in their decisions.[4] In addition, workforce demands are increasingly dynamic, requiring new skills and new ways of teaching; and flat high school graduation rates also contribute to the lackluster enrollment pipeline.[5]

[1] Kelly Hodgins and Chad Lubelsky, "A field catalyst for systems change in higher education," *Stanford Social Innovation Review*, July 13, 2020, ssir.org.
[2] Martin Hirt, Celia Huber, Frithjof Lund, and Nina Spielmann, "Boards in the time of coronavirus," April 16, 2020, McKinsey.com.
[3] National Center for Education Statistics (NCES)
[4] Hayoung Kim, Charag Krishnan, Jonathan Law, and Ted Rounsaville, "COVID-19 and US higher education enrollment: Preparing leaders for fall," May 21, 2020, McKinsey.com.
[5] Rick Seltzer, "Moody's maintains negative outlook for higher ed," Inside Higher Ed, August 14, 2019, insidehered.com.

Higher-ed institutions are also experiencing a rise in global competition, resulting in declining growth in international student enrollment. COVID-19 will likely affect these numbers as well, resulting in negative or lower net enrollment revenue. These are just some of the trends putting pressure on universities to explore new business models and improve their recruitment approach to appeal to a more diverse set of students, including nontraditional adult learners, for example.

Finances are under pressure and increasingly complex: For most colleges and universities, COVID-19 will put their budgets under even more pressure. Seventy percent of presidents expected revenue losses greater than 10 percent due to the pandemic.[6] Increased spending on fixed costs such as facilities and inflexible academic cost structures put downward pressure on university finances. Prior to COVID-19, many universities increased tuition to ease the burden of reduced or plateaued enrollments, though a few are now considering tuition freezes and tuition reductions in the face of the pandemic.[7] New revenue streams can also make

finances more complex—growing academic medical centers is one such example.

Risk management and external relations are increasingly important: Media scrutiny, scandals, athletics violations, cybersecurity breaches, safety violations, and sexual assault can place higher-education institutions in the limelight, facing unwanted public attention, create safety concerns for students, and potentially affect enrollment numbers or alumni donations.

Understanding the relationship among a board's core functions

Most boards can address these environmental complexities through better execution of their core functions across strategy, governance, finance, performance, risk, and external relations (exhibit). While boards may be clear on *what* the core functions of a board are, however, many are not executing them effectively within their current operating model.

Exhibit

Based on our experience with dozens of higher-education institutions, we have defined the core functions of university boards.

Strategy	Governance	Financial	Performance	Risk	External relations
● Set strategy (ongoing and 3–5 year plans) in collaboration with university leadership ● Monitor strategy execution on an ongoing basis	● Recruit and hire president, conduct performance assessments, and determine succession and transition ● Conduct governance performance assessments and monitor against agreed objectives	● Review and approve annual operating budgets and major capital expenditures ● Conduct oversight over university financial management ● Ensure that the university is conducting effective fundraising and investment activities	● Establish key performance indicators (KPIs) to which university leaders will be held accountable ● Provide oversight over university performance on key success factors (eg, teaching, research, medical-center success, student life)	● Ensure that the university is in full compliance with all of its legal obligations ● Review audit and investigation plans, monitor outcomes, and provide guidance on course of action ● Develop strategy to respond to crisis situation, set risk-mitigation strategies, communicate risk tolerance, and proactively monitor through risk registry (reputational, financial, legal, operational)	● Promote and guide partnerships and external engagement (eg, with local community, other higher education stakeholders) ● Serve as a representative of the university in the community and represent the university's interests with integrity and distinction

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[6] Paul N. Friga, "The hard choices presidents will have to make," *Chronicle of Higher Education*, April 3, 2020, chronicle.com.
[7] Caitlin Crowe, "Moody's gives higher ed a negative outlook, again," December 4, 2018, chronicle.com; Rick Seltzer, "Pricing pressures escalate," Inside Higher Ed, April 27, 2020, insidehighered.com.

When working optimally, core functions work interdependently, supported by a clear articulation of roles and responsibilities between the board, university leadership, and its committees. Feedback mechanisms help boards understand where further alignment is required. For instance, the strategy function shapes the university's long- and short-term plans, but it cannot operate well without governance function support. An effective strategy function is dependent on recruiting and hiring a capable president and assessing how well the board is pacing against its objectives. Similarly, there is a close connection between risk management and external relations. A university might have an air-tight crisis strategy for financial mismanagement, but if it's missing (or has limited) external representatives to speak on its behalf, then the backlash could be blown out of proportion.

Due to their large size and legacy processes, many boards are not set up well to effectively execute on all of these functions. For instance, boards struggle to organize regular in-person meetings with sufficient time provided for strategic discussion. In some cases, the balance between core functions is wrong—boards allocate too much attention to one core area to the detriment of others. In other cases, board members may lack the specific expertise required to serve on a given university committee,

such as finance or risk. To address these issues, boards could employ regular feedback mechanisms to help understand what is working and what is not. Indeed, a board without the proper balance and focus on all six functions will find it difficult to withstand the increasingly complex environment in which it operates.

Three ways to better execute core functions and improve university governance

While the context of each board is different, there are three best practices boards can adopt and tailor to fit their unique context. These methods are complex to implement as they challenge a board's fundamental composition and the way it operates. However, there are smaller steps boards can take, such as setting clear meeting agendas, which support the high-level changes.

1. Improve cooperation between board and administrative leadership

Effective cooperation between management and the board is critical; however, the division of responsibilities may differ based on university needs and its strategic position. This approach demands the board be clear about what is expected of each role. Without detailed responsibilities, there

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is the danger of boards being too hands on and getting in the way of administrative leadership or being too hands off, leaving leadership with little oversight into what is happening.

University boards can do two things to improve role clarity:

Delineate responsibilities: As universities face increasing exposure to risks and other pressures, having a clear mandate and delineation of roles between the board and the administration (day-to-day operations) can make it easier to address these complexities.

One best practice is to create a detailed charter clearly outlining expectations for board and university leadership roles, such as trustees and administrative personnel. For example, such a charter would distinguish between the board's and the administration's role in setting the university's strategy: the board's role is to evaluate and approve the president's strategy, while the president has ownership over the development and execution of that strategy. Boards that get too involved in the details not only frustrate leadership but also become distracted from the more critical strategic questions they could be addressing, such as what are the most imminent risks facing the university and what might the institution's strategic priorities be for the near and long term?

Solidify personal relationships and communications: Boards and their leadership must view each other as trusted partners and communicate effectively; direct communication signals a strong personal relationship and culture.

Universities that communicate well have clear guidelines governing the flow of information between the university and its board. Leadership could proactively seek advice from the board, rather than reactively providing information. And management could make it a point to inform the board of critical decisions using designated channels rather than relying on back channels. The administration could also give the board line of sight into existing performance metrics to help effectively address financial challenges. Using standardized templates and sharing executive summaries for briefings—instead of long and impenetrable presentation documents—can help focus discussions. And regular updates on key performance indicators and regular communication with the administration can ensure that the board clearly understands the university's current and projected position.

2. Redefine board structure

As previously mentioned, one of the reasons boards are ill-equipped to deal with the rapidly changing environment is that they have not critically assessed their current structure and processes. Specifically, many boards could review their board size, committee structure, and the division of fiduciary and institutional responsibilities.

Rethink board size and composition: Many boards skew large, making them unwieldy—among top 20 universities, board size can range from 19 to 72 trustees, with 40 being the average.

Large boards can lead to erosion of board norms. At some institutions, many members show up to a limited number of meetings or don't participate in committees. While it can be prudent to invite major university contributors to the board (many of whom are great trustee candidates), good board systems[8] are smaller (consisting of about 20 to 25 members, or 12 in corporate settings) and more effective, generationally diverse, have clear term limits and lengths, and consist of members representing a varied set of capabilities. A smaller board likely means more committed board members who can fulfill fiduciary duties.

One university president took a firm stance on reducing board size by announcing that he was cutting the board in half, effective immediately. Negative fallout was minimized through one-on-

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[8] Sometimes there are two different boards so that the governing board can stay small. Members of the other board play more of an advisory role, providing expertise and guidance.

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one conversations with board members and by creating a ceremonial emeriti trustee role. Members in this role could engage in the activities of the university, but not in the fiduciary obligations of trustees. Both private universities that have the power to appoint their own boards and state authorities that appoint the boards of public institutions can take these approaches.

Diversity in board composition is another critical factor. These boards are often characterized by lack of diversity, as 70 percent of members are male and nearly three-quarters are white.[9] Indeed, diverse boards by measure of age, gender, ethnicity, and geographic diversity tend to see stronger operating results. In fact, our research suggests that boards demonstrating greater diversity in those areas are much more likely to make decisions that financially outperform the national median than less diverse, all-male boards.[10] Boards can proactively improve their diversity by formally including criteria around it in the nominating process. Diversity in subject matter expertise is also critical to support good decision making in areas such as financial investment (for endowments and investment committees, for instance), risk management, healthcare, and technology to support digital imperatives.

Streamline board committees and their work: To date, many universities have more committees than necessary and subcommittee structures remain static. For instance, universities have about ten subcommittees on average, compared with four in

the private sector. While these institutions do focus on critical areas such as academics and university development, they often neglect topics such as risk management, in part because committee structures have not evolved over the past decade. Unlike private-sector companies whose boards are subject to shareholder demands to adapt rapidly to the needs of the market, universities don't face the same pressure to change.

Furthermore, many universities do not clearly define roles and scope, leading to inefficient and unproductive committees that might duplicate roles. To address this issue, universities might reconsider their committee structures to ensure they are meeting the evolving needs of the board and the university, and the evolving demographics and needs of students. Surveys can help track duplication of activities across committees, identifying opportunities to consolidate or streamline to eliminate redundancy. And a board evaluation can help map the university's current risks, opportunities, and priorities to the existing subcommittee structure to ensure the current construction aligns the university's priorities and all committees are productive. Some universities, for example, have created separate risk and audit committees given the evolving nature of enterprise risk management.

Make institutional and fiduciary responsibilities align with required capabilities and expertise: Boards struggle to effectively manage functions that require specialized expertise and have a distinct strategic function. The answer in these cases might

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[9] McKinsey analysis of publicly available data on board size and composition.
[10] Sundiatu Dixon-Fyle, Vivian Hunt, Sara Prince, and Lareina Yee, "Delivering through diversity," January 18, 2018, McKinsey.com.

be to have multiple boards that can manage areas aligning with their skills and knowledge. Two typical examples are an investment board to manage the endowment and a healthcare board to manage the medical enterprise.

For example, several top 20 universities such as MIT and Harvard have independent investment management boards or groups that make up a dedicated board of directors with specific expertise in fiduciary responsibilities. In our experience, boards with these types of structures also tend to have above-average endowment returns.

Similarly, in healthcare, for the roughly 120 US universities with academic medical centers, the delivery of medical care poses complex legal and regulatory requirements necessitating different expertise compared with the general university board. In some cases, academic hospitals and medical centers are larger than the university itself—demanding more risk management than university boards could provide on their own. The recent spate of scandals around student and athlete health at several universities makes it clear that university medical centers need a different level of operational oversight and management. Medical boards require members who understand the complexities of the healthcare landscape, how to manage competition from nonprofit and for-profit hospitals, and what good hospital administration looks like.

3. Set clear board processes and norms
The process of revising accepted board processes can be thorny, but boards can make incremental improvements, focusing more on day-to-day activities that over time make a huge impact.

Clarify board meeting agendas and protocols: While many boards may want to use meeting time to celebrate the school's strengths and academic achievements, these items can push other topics to the back burner. McKinsey research on the effectiveness of corporate boards—how well they execute on their core functions—found those that are successful spend 25 to 30 percent of their time

discussing strategy, 20 to 25 percent focused on performance management, and the remaining time discussing other topics, such as organization, culture, talent, investments, and governance.[11] University boards should take heed—allocating the right mixture of time to the core functions is a delicate balance.

One solution is to have longer meetings at least quarterly to ensure ample time for the board to cover administrative matters and allow time for deep discussion on strategic issues and opportunities facing the university. Ideally, these discussions are two-day meetings, with all committee meetings occurring on the first day and the full board meeting on the second. This can be a win for board members and administration that generally meet more frequently, avoiding additional travel for committee work. For example, boards at the University of North Carolina at Chapel Hill, Yale, Princeton, Stanford, and the University of Chicago all meet multiple times a year for two days. Having a smaller board can also help these meetings go smoothly, as the group is likely more committed to the mission and members contribute more.

Improve board performance and foster development: Managing board performance is a prerequisite to managing institutional performance. However, many of the same rules that apply to institutions rarely apply to boards—transparent, disciplined processes for nominations; clear expectations for board members; effective onboarding and ongoing education; and regular evaluation are not enforced. Without formal processes in place, it's difficult for the board to manage itself and grow.

Culture and lack of clarity of expectations can serve as barriers to implementing new ways of doing things. And without term limits or rules around term lengths, it can be difficult to foster change and create opportunities for new leaders. Boards can improve performance and development through ongoing education, onboarding development, and employing board evaluations.

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[11] "A time for boards to act," March 2018, McKinsey.com.

All board members could undergo mandatory onboarding focused on fiduciary, risk, and other board responsibilities. Focusing on a board's norms and culture during this time is particularly critical in public universities where the board does not have control over who will serve. Thus, the board needs to move quickly to help new members become effective no matter their background. Ongoing training focused on national trends in higher education and issues such as ongoing Title IX concerns[12] are also critical to ensuring board members can carry out their duties.

Conduct evaluations including self-evaluations, 360-degree peer evaluations, and reflections on overall board performance are all good ways to make sure boards are on a path to continuous improvement. In a rapidly changing environment, the board that is fit for today may not be fit for tomorrow, making self-reflection important even for high-performing boards.

Deepen relationships with faculty, students, and stakeholders: Shared governance is a critical component of the culture and ethos of higher education. In fact, regardless of the size or type of university, it is a best practice to invite stakeholders and subject matter experts to participate, as more engagement means increased transparency and a voice in governance.

Effective boards build institutionalized opportunities to receive input from faculty, students, and staff. Committee meetings are one way to include participants as they are generally smaller and more focused than large board meetings, making it easier for members to participate and make their voices heard. We've observed three ways to effectively incorporate the voices of faculty and students into board discussions:

— *Include faculty and students in a subset of board or committee meetings by invite only.* Give them time to present concerns to the board and engage in a deep discussion of issues. Some university boards take this approach, including MIT and Yale.

— *Formally include faculty and students as board meeting observers and nonvoting trustees.* These groups can join nonconfidential portions of board meetings to provide input or advise.

— *Formally include both groups as voting trustees.*

Building a board for the future

While all three best practices may not be available to every board, this is no excuse for inaction. Public universities, for instance, may have no leeway on size, but they can adjust their structure and focus.

As is true for any governance effort, university boards need to understand where they want to go. An assessment of the current board governance benchmarked against peer and leading universities can help boards articulate their desired future state and the steps they need to get there. Once boards have this vision, they can create a detailed road map, implementation plan, and timeline to get there. This evidence-based approach will also help boards get buy-in from key stakeholders.

Implementation can be difficult and gradual, but in the end, it is worth it: university boards will be better able to respond to challenges created from the COVID-19 pandemic, navigate the changing higher-education landscape, to thrive in the future while supporting the university's mission.

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[12] Jeremy Bauer-Wolf, "Trauma-informed dispute," Inside Higher Ed, September 17, 2019, insidehighered.com.

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